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NATIONAL INTELLIGENCE DAILY CABLE

Friday 9 June 1978

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DIA review(s)

State Dept. review

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National Intelligence Daily Cable for Friday, 9 June 1978.

The NID Cable is for the purpose of informing senior US officials.

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Ethiopia

## DJIBOUTI-ETHIOPIA: Rail Repairs

25X1 [ ] Ethiopia has completed repairs on the Addis Ababa - Djibouti railroad, which was sabotaged a year ago by guerrillas at the beginning of the Somali campaign to gain control of Ethiopia's Ogaden region. The reopening of the railway will be a test of Somali and Djiboutian intentions toward Ethiopia and will probably also involve France more directly in the Somali-Ethiopian dispute.

25X1 [ ] The railway, which provides Ethiopia's only rail access to the sea, will probably resume limited operations within a few days. Somali guerrillas continue to operate in the area, and an attempt by them to disrupt the railroad would provoke a strong Ethiopian military response, perhaps including reprisals against Somali territory.

25X1 [ ] The Djiboutian Government is caught between its antagonistic neighbors. President Gouled prefers strong ties to Somalia, but he recognizes the need to stay on good terms with Ethiopia. He will allow resumption of deliveries by rail to Ethiopia--but not of military equipment.

25X1 [ ] Although the operation of the railroad is the mainstay of the Djiboutian economy, Somalia will probably press Gouled to restrict Ethiopia's use of the railroad further. Gouled's acquiescence in such a scheme would cause Ethiopia to increase efforts to subvert his government. Ethiopia will also be sensitive to any signs of Djiboutian complicity in allowing Somali guerrillas to threaten the railway inside Djibouti.

25X1 [ ] The Ethiopians will expect the French to provide security for the line inside Djibouti. Units of the 4,500-man French military contingent guard vulnerable sections of the line. The main French concern is to avoid casualties among French nationals, and a guerrilla campaign against the railroad would force President Giscard to make some hard choices about France's military presence in Djibouti. [ ]

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PERU-USSR: Military Relations

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[redacted] *The USSR is apparently attempting to ensure that Peru continues to depend on it for the maintenance of Peru's Soviet-made military equipment. This could become a new source of friction in the military relationship between the two countries.*

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[redacted] the Soviets have made it difficult for the Peruvian Army to perform major maintenance on its T-55 tanks. They are said to have refused to issue detailed manuals that would enable the Peruvians to overhaul the T-55 engines; the Soviets insist that the engines be returned to the USSR for such service. It is standard practice to return the engines of Soviet-made military aircraft to the USSR for periodic overhaul, but for reasons of efficiency and economy, tank engines usually are not.//

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DIA

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[redacted] //Peru reportedly has reacted by looking for alternative sources for a diesel engine compatible with the T-55. One prospect is the UK, which has studied the feasibility of installing Western engines in Egypt's Soviet-made tanks. It would be some time, however, before Peru would be able to find a suitable replacement engine.//

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[redacted] //The Peruvians have had many problems with their 300 T-55s. Early last year, some 70 of the tanks were inoperable because of engine failure at high altitudes, other equipment weaknesses, and an inadequate supply of spare parts. The percentage of inoperable T-55s apparently has not diminished since then.// [redacted]

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POLAND - EAST GERMANY: Trade Cuts

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[redacted] //The success of Poland and East Germany in reducing their hard currency trade deficits last year has raised concern among their major Western trading partners. Poland has cut its imports sharply, while East Germany has combined import cuts with an abrasive export policy that has irritated some of its Western trading partners. The cuts particularly affect imports of machinery and equipment. Nonetheless, Western suppliers, concerned about their export markets, continue to push their exports by offering large credits to Eastern Europe.//

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[redacted] //To cope with its balance-of-payments problems and curb a hard currency debt that totals \$12.8 billion, Poland reduced imports from the West in 1977 by about 8 percent. France was hit particularly hard. Its exports to Poland dropped 34 percent, constituting half of Poland's \$500 million cutback in imports. West Germany and Austria each reported reductions of more than 10 percent.//

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[redacted] //These three countries provide about 40 percent of Poland's imports from the West. Further cuts in imports from France are anticipated; new contracts signed with French firms last year were about 80 percent below 1976 contracts. To counteract the trend, France is pressing Poland to use more than \$2 billion in French credits.// Austria also is dissatisfied with Poland's policies, particularly Warsaw's failure to proceed with joint industrial projects. More than \$250 million in existing supplier credits remain unused; Vienna has turned down a request to "untie" the unused credit.

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[redacted] //East Germany's trade relations with France and Belgium are becoming increasingly strained as a result of its aggressive commercial policies. East Germany's actions, like Poland's, apparently also hit France hard. East German imports from France fell 41 percent in 1977, and a further decline is expected this year.//

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[redacted] //The East Germans are further demanding preferential trade credits with substantially better terms than France is willing to offer for new contracts. The French are willing to extend more than \$500 million in credits, with repayment over five to eight years at an 8.25-percent annual interest rate, but the East Germans want 7.75-percent interest.//

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[redacted] //Heavy-handed East German efforts to reduce its hard currency deficit are also irritating Belgium. Several Belgian firms have balked at East Germany's insistence that its imports from Belgium be contingent on tie-in sales, in which payment for imports would be made partially or fully with East German products. Although East German trade officials are concerned over the reaction to their commercial policies, they apparently are unwilling to change their tactics.// [redacted]

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## ETHIOPIA - KENYA - US: Arms Sales

25X1 [ ] *Ethiopia is trying hard to deter the US from supplying arms to Somalia. The Ethiopians have enlisted the aid of Kenya to get their message across.*

25X1 [ ] Ethiopian Foreign Minister Feleke, in a recent conversation with Deputy Assistant Secretary Harrop, reaffirmed his government's strong opposition to the US decision in principle to sell defensive arms to Somalia. Interpreting press reports of a \$15 million arms deal as a *fait accompli*, Feleke warned that the US should not be surprised if such a deal caused a deterioration in recently improved Ethiopian-US relations.

25X1 [ ] Bilateral relations have improved in recent months and have been highlighted by Ethiopia's willingness to accept a new US Ambassador and--at least until Chairman Mengistu's speech yesterday--by a diminution in Addis Ababa's anti-US rhetoric. In his speech, Mengistu accused the US of sending 60 advisers to aid the insurgents in Eritrea.

25X1 [ ] A senior official in the Ethiopian Ministry of Foreign Affairs, who handles relations with the US, earlier this week warned that Somali assurances that US arms would not be used against Somalia's neighbors were worthless. He said that arming Mogadiscio would be tantamount to encouraging further Somali aggression in the Ogaden.

25X1 [ ] The official also charged that Somalia was continuing to infiltrate regular Army forces into the Ogaden and reiterated Mengistu's recent threat that Ethiopia will take punitive measures against Somalia if the Somalis increase their activities on behalf of the Ogadeni insurgents.

25X1 [ ] The Ethiopians are also using the Kenyans, who they believe have more influence on US decisionmaking than Ethiopia does, to push their message. On Wednesday, for example, Kenya's Ambassador to Ethiopia made an impassioned plea to the US Charge against any US arms supply relationship with Somalia. He replayed all the arguments Feleke used with Secretary Harrop.

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[ ] The Kenyans also are fearful of Somali irredentism and doubtless need little prodding from Addis Ababa to plead the Ethiopian case. The Kenyan Ambassador probably was accurately reflecting the views of his government, although Kenya's unhappiness with the US has been tempered by its own arms supply relationship with the US. [ ]

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#### MOROCCO: New Fighter Aircraft

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[ ] Morocco has received the first six of 50 Mirage F-1 fighter aircraft on order from France, according to the US defense attache in Rabat. The Moroccan Air Force, however, is short of qualified pilots, and it will remain at a disadvantage against its much larger Algerian adversary.

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[ ] The F-1s, ordered in 1975 for \$600 million, are the major feature of the Air Force's modernization program. Other modernization steps include the acquisition of Western surface-to-air missiles, an air defense radar system, additional transports, trainers, and helicopters, as well as plans nearly to double the Air Force's size over the next five years.

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[ ] The delivery schedule for the F-1s slipped several times because of construction delays at the airfield where they will be based and a shortage of Moroccan pilots qualified for training on the aircraft. Work at the base apparently is still not complete, and the fighters will be stationed temporarily at another field.

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[ ] Pilot shortages loom as a larger and longer lasting problem for the Moroccans. The French reportedly had difficulty selecting six qualified trainees from among Morocco's most capable fighter pilots. The F-1 program, moreover, is drawing from the pool of pilots trained on the US-built F-5--currently Morocco's frontline fighter--which will continue in service after F-1 deliveries are completed. This will offset recent gains the Air Force has made in its F-5 pilot-to-aircraft ratio.

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[ ] The US Embassy in Rabat estimates that Morocco is unlikely to have a fully operational F-1 squadron until next year, although some aircraft could be pressed into service sooner if necessary. [ ]



## ITALY: National Referendums

25X1 [ ] Two national referendums set for Sunday and Monday in Italy could produce results politically embarrassing to the country's major parties, particularly the Communists. The electorate will be deciding whether to retain or repeal two controversial laws, one providing tougher law-and-order measures and the other providing for public financing of political parties. Nearly all the parties--including the Communists--favor retention of both laws, and a vote favoring repeal is unlikely. The Communists opposed the security legislation in parliament three years ago, and if they receive less backing than expected in the referendum, many Italians will conclude the Communists have been unable to persuade all of their followers to accept the party's tougher stance on law and order.

25X1 [ ] The referendums result from signature campaigns spearheaded by the small Radical Party; a national referendum can be held on certain types of legislation in Italy if 500,000 voters petition for repeal.

25X1 [ ] The Radicals, who have long championed civil rights causes, argue that the public order legislation not only is repressive but also has failed to reduce crime and violence; the law significantly broadened police powers of search and arrest and increased the penalties for many crimes.

25X1 [ ] Parliament authorized public funding for political parties in 1974 after an investigation of oil company political payoffs proved embarrassing to some of the governing parties. Most of the \$72 million annual appropriation is divided among the parties according to their relative strengths in parliament. The Radicals and some other small parties urging repeal argue that the law gives unfair advantage to existing large parties.

25X1 [ ] Because parties representing about 90 percent of the electorate have endorsed the laws and a simple majority is required to uphold them, it is generally taken for granted that the voters will retain them. Interest centers mainly on the size of the expected endorsements. A sizable negative vote will be seen as a slap at the political establishment generally.

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[ ] The Radicals would consider such a vote a moral victory, because it would suggest that the major parties do not have a tight hold on their voters and are not responsive to their views.

[ ] //The Communists are particularly worried about the vote on the public order law. Most supporters of the centrist and conservative parties will probably oppose repealing the law. Even if waverers such as supporters of the Socialist Party vote against it, the law should still be endorsed by about 80 percent of the voters.//

[ ] //If a substantially smaller percentage of voters--say 70 percent--backs the law, the result would be interpreted as evidence that the Communists, who voted against the law in 1975 but now endorse it, have been unable to convert all of their followers to the need for tough measures against political violence.// [ ]  
NSA-

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#### FRANCE: New Economic Measures

[ ] *The French Government is supplementing its two-year-old stabilization program with a set of controversial steps aimed at enhancing the efficiency of the economy. These actions initially will have an adverse impact on inflation and employment. Criticism in the coming months, particularly from the labor unions and the Socialist and Communist Parties, is likely.*

[ ] His hand strengthened by the March election, President Giscard is moving to prune drastically government intervention in the economy. Before the end of the year he will:

- Eliminate all price controls on industrial products.
- Reduce subsidies to state enterprises, to be made up by higher prices for their products.
- Encourage individuals to channel savings into productive investment.
- Implement tougher guidelines for aiding troubled firms.

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[ ] Giscard clearly is taking a considerable gamble because the negative effects of the new policy are likely to show up long before any benefits become apparent. In particular, price decontrol could cause inflation to increase this year. The rate of inflation last year was 9 percent, and it is likely to rise to at least 11 percent, according to the latest government forecast.

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[ ] At the same time, the tougher policy concerning ailing firms probably will force a number of them to cut back or close and thus add to an already worsening unemployment problem. According to Labor Minister Boulin, the number of unemployed could rise by about 200,000 in 1978, to 1.2 million.

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[ ] The new measures, however, are shrewdly timed. Giscard does not face reelection until 1981, and a new legislative election need not be called for five years. If the program proves successful, voters will have ample time to forget early negative effects of the policy shift.

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[ ] In the meantime, Giscard and Prime Minister Barre will have to weather a stormy transition period that could easily last more than a year. Workers already are unhappy about the slow growth in real wages they attribute to Barre and could protest vigorously the layoffs that result from any plant closings. If an inflationary surge develops, organized labor will fight for large pay increases that would upset the government's strategy. [ ]

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#### CHINA: Political Conference

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[ ] Major addresses by China's top three leaders to a military conference in Peking have revealed important differences in ideology, political approach, and work style. While these differences reflect in part different roles, and perhaps constituencies, the combative speech by Vice Chairman Teng Hsiao-ping, his strongest defense to date of his own pragmatic philosophy, set him clearly apart from the other two leaders and suggests he may be willing to heighten tensions in the leadership and incur personal criticism to achieve progress toward his goals.



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[ ] The "All-Army Conference on Political Work" has been in session since at least early last month, and has been a forum for discussions of how to maintain the "correct" ideological and political orientation in the armed forces during a period of increased internal pressures for modernization and professionalization. Party and Military Commission Chairman Hua Kuo-feng and Vice Chairman and ex - Defense Minister Yeh Chien-ying addressed the meeting on 29 May, while Vice Chairman Teng spoke on 2 June. Both sessions were attended by most of the Peking-based members of the Politburo and the military's top leaders.

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[ ] Hua's and Yeh's speeches contained little new information or insights except to make clear that the problems of professionalism and the proper role of political commissars--which have plagued the military since the Korean War--are still serious. Hua reflected concern that party control over the Army might be weakened in the press for military modernization.

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[ ] Yeh stressed the need to return to practices the party followed before it came to power to solve the problems caused by the "gang of four" and by the "new historical conditions" such as the drive to achieve the comprehensive modernization of society.

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[ ] In sharp contrast, Teng's remarks were pointed, controversial, assertive, and directed less at the specific problems of military political work than at reemphasizing and legitimizing Teng's own brand of political pragmatism. He called for a more flexible and realistic approach to new problems and less mechanical recitation of Maoist phrases or application of old methods.

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[ ] He attacked those who have apparently criticized him on doctrinal grounds by asserting that the pragmatic method he espouses is the "fundamental point" of Mao's ideology and that those who talk about "Mao Tse-tung Thought every day," but oppose Teng, are actually opposed to Mao.

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[ ] In contrast to Hua's and Yeh's conciliatory approach to problems within the military, Teng called for a reopening of the investigation of the Lin Piao affair, which could involve a wider purge of senior officers, and for a more rigorous selection of leading cadres to facilitate policy implementation.

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[ ] Teng seems to have been deliberately controversial in an attempt to shake up his audience and to free them from the "mental shackles" that prevent them from seeking creative solutions to problems. His emphasis on problem-solving will no doubt be popular within the bureaucracy. While he revealed no major differences with Hua and Yeh over policy objectives, his approach to political problems and the speed at which he wants to see them solved are in such marked contrast to their more conservative views that the implementation of policy may be adversely affected.

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[ ] Teng's unorthodox position--defying his critics and making statements that could be construed as criticism of his party superiors--is evidence of his confidence in his political status, and of his resilience, because the views he voiced are some of the "errors" for which he was criticized in 1975 and 1976. His decision to push his philosophy, even if it creates fissures in the top leadership, indicates the great urgency he feels for rapid progress toward solving deep-seated problems, and a sense of frustration over delays caused by fear and ideological footdragging. [ ]

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#### CHINA: Flexibility in Foreign Trade

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[ ] *//China has become increasingly willing to liberalize its trade and finance policies in order to promote economic development by boosting the use of import financing for purchases of technology.//*

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[ ] *//Chinese officials have been considering trade and financing arrangements that they previously would not even have discussed, including:*


- Using long-term credits and financing capital imports through foreign bank deposits with the Bank of China.
- Arranging barter and compensation deals for plant purchases.
- Importing materials to be reprocessed for export.
- Designating certain plants to produce goods specifically for the Japanese market.

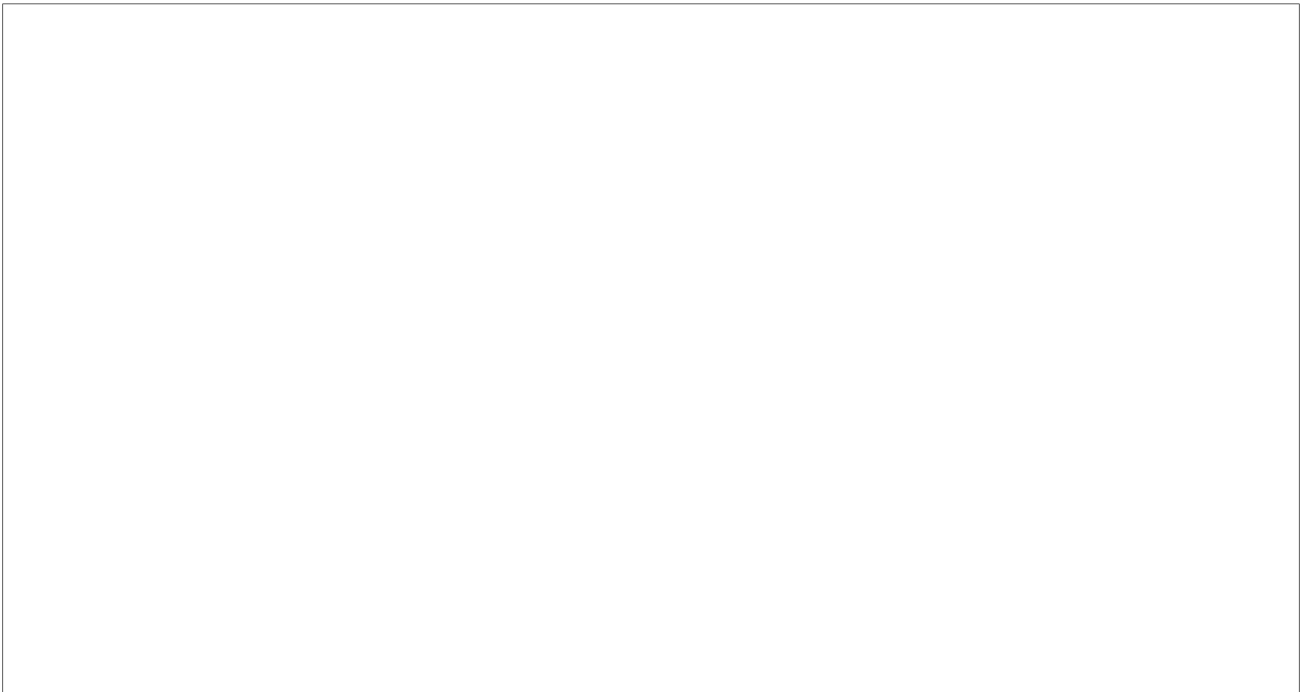
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-- Complying more fully with international standards on patents, trademarks, and copyrights.//

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 //A recent New China News Agency article highlighted the "flexible practices" used at the spring Canton Fair to promote exports. These included supplying goods under consumer trademarks and brand names, producing goods using customer-supplied designs and raw materials, bartering for some commodities, and showing flexibility in setting export prices and contract currencies.// 25X1



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 //Peking continues to insist that its basic policy of self-reliance is unchanged and that loans, joint ventures, and foreign investment in China are still unacceptable. Ideological constraints on more venturesome trade practices have loosened since the suppression of the radical faction, however, giving Vice Premier Teng Hsiao-ping and other economic pragmatists a freer hand to pursue an active trade policy.//



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[REDACTED] //Liberalized approaches to trade and finance will further China's goal of expanding imports of foreign equipment and technology and of producing the exports to pay for them. Financing will be necessary for large amounts of "modernizing" imports--perhaps \$30 billion over the next five years.//

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[REDACTED] //In view of China's excellent credit rating and healthy financial position, sizable short- and long-term credits are available from the West. In certain cases, barter and compensation deals would appeal to Peking because export markets for Chinese products could be nailed down when the plant contract is signed. Ultimately, it will be necessary to export more in order to pay for the expanded imports and to improve the marketability of Chinese goods.//

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[REDACTED] //Limited export potential is the major problem. Markets for petroleum exports are limited by high prices, transport costs, and undesirable refining characteristics of Chinese oil. Moreover, estimates suggest China's exportable surplus of crude oil will level off by the mid-1980s. Sales of other goods face problems of either inadequate supply or limited foreign demand. In addition, China's small reserve of technical and scientific expertise will impede the absorption and adaptation of imported technology. [REDACTED]

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#### BRIEFS

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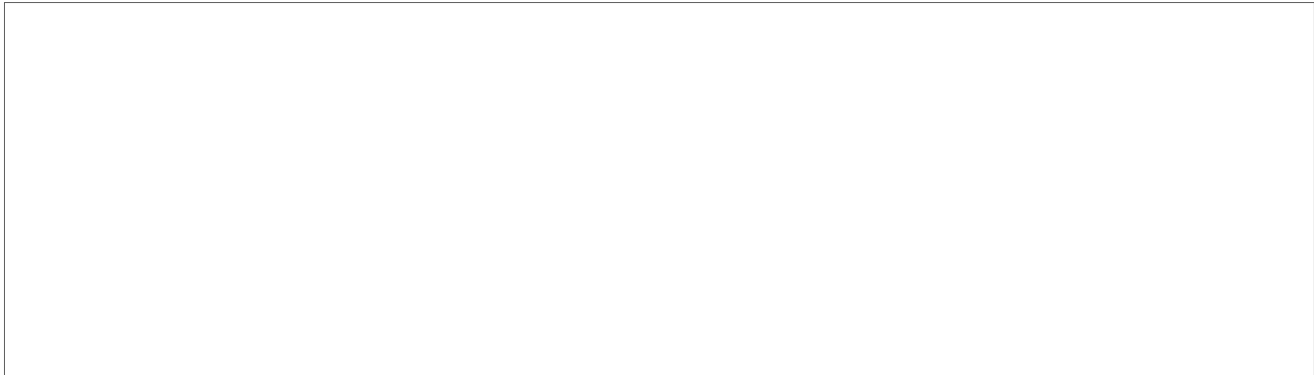
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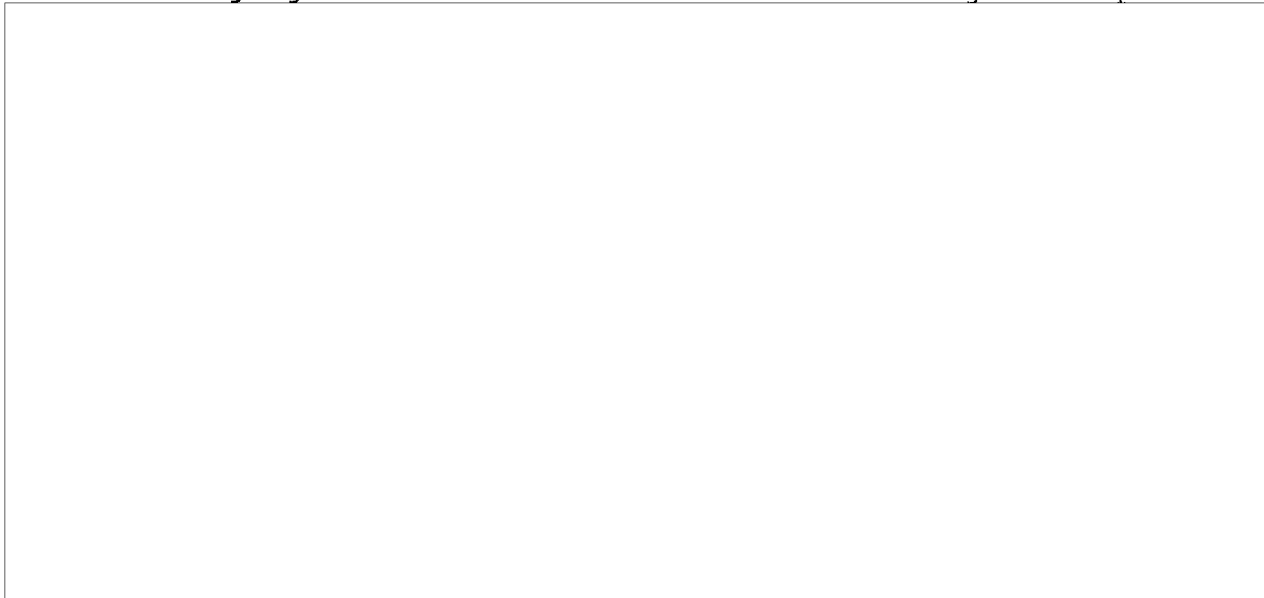


### Ethiopia

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 In a belligerent speech yesterday, Ethiopian Chairman Mengistu once again denounced Eritrean secessionist guerrillas and voiced his determination to seek a military solution to the conflict unless the insurgents agree to negotiate on Ethiopian terms. Some press reports misinterpreted his remarks as conciliatory, but even his offer of "amnesty" was a blatant attempt to encourage guerrilla desertions rather than a general pardon.

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